

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF DELAWARE**

<b>IN THE MATTER OF THE APPLICATION OF</b>	)	
<b>CHESAPEAKE UTILITIES CORPORATION</b>	)	
<b>FOR A GENERAL INCREASE IN ITS</b>	)	
<b>NATURAL GAS RATES AND FOR APPROVAL</b>	)	<b>PSC DOCKET NO. 15-1734</b>
<b>OF CERTAIN OTHER CHANGES TO ITS</b>	)	
<b>NATURAL GAS TARIFF</b>	)	
<b>(FILED DECEMBER 21, 2015)</b>	)	

**DIRECT TESTIMONY OF  
JASON R. SMITH  
ON BEHALF OF THE STAFF OF THE  
DELAWARE PUBLIC SERVICE COMMISSION**

**AUGUST 24, 2016**

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1           **I. Introduction and Purpose of Testimony**

2   **Q. Please state your name and business address.**

3   A. My name is Jason R. Smith, and my business address is 861 Silver Lake Boulevard,  
4       Cannon Building, Suite 100, Dover, Delaware 19904.

5   **Q. By whom are you employed and in what capacity?**

6   A. I am employed by the Delaware Public Service Commission (the “Commission”) as a  
7       Public Utility Analyst III.

8   **Q. How long have you been employed by the Delaware Public Service Commission?**

9   A. I have been employed by the Commission since April of 2010.

10   **Q. What is your educational background?**

11   A. I graduated with an Associate of Applied Science Degree from Delaware Technical and  
12       Community College in 2005. In 2008, I received a Bachelor of Science Degree in  
13       General Studies from Wilmington University. And in 2016, I graduated with a Masters  
14       of Business Administration from the same institution.

15   **Q. Briefly describe your duties and responsibilities with the Commission.**

16   A. Apart from being the case manager for this proceeding, I examine monthly, quarterly, and  
17       annual reports for Chesapeake Utilities Corporation – Delaware Division (“Chesapeake”  
18       or the “Company”). This includes the examination of all monthly over/under collection  
19       reports, monthly financial statements and summary trial balance reports, quarterly gas  
20       hedging reports, quarterly rate of return reports, annual supply plans, and main extension

1 filings. I also have typically served as the case manager for a number of various types of  
2 filings made by Chesapeake since 2012.

3 My other duties and responsibilities with the Commission include serving as a case  
4 manager or team member to perform reviews of various utility applications such as rate  
5 case filings, stock and debt issuances, or requests for tariff revisions. Additionally, I  
6 prepare reports and other schedules in other proceedings, make written recommendations  
7 to the Commission, and perform other related tasks as assigned. In conjunction with my  
8 work in rate case filings, I participate in the planning and execution of the required audits  
9 of regulated companies, including performing a review of supporting documentation at  
10 utilities' offices to evaluate and make recommendations regarding the financial and  
11 managerial condition of those utility companies.

12 **Q. What is the purpose of your testimony in this proceeding?**

13 A. I was assigned as the Case Manager to review Chesapeake's Application for a general  
14 increase in its natural gas rates, proposed new service offerings, and miscellaneous tariff  
15 changes filed on December 21, 2015. My testimony will provide some background on  
16 the application and summarize the recommendations of Staff's other witnesses.

17 **Q. Please identify the other witnesses that are providing direct testimony on behalf of**  
18 **Staff in this proceeding.**

19 A. Mr. Jerome D. Mierzwa of Exeter Associates, Inc. will review the Company's proposed  
20 cost-of-service study and rate design, address the proposed revenue normalization  
21 adjustment ("RNA"), as well as the new service offerings designed to facilitate system  
22 expansion.

1 Mr. Lafayette K. Morgan of Exeter Associates, Inc. will address the overall revenue  
2 requirement deficiency.

3 Mr. David C. Parcell of Technical Associates, Inc. is presenting testimony in the areas of  
4 Capital Structure, Cost of Capital, Cost of Equity and Rate of Return.

5 Mrs. Lisa B. Driggins of the Delaware Public Service Commission Staff (“Staff”) is  
6 presenting testimony regarding the Company’s tariff revisions to modify its Curtailment  
7 Policy, Extend its Bill Payment Due Date, and Interest Rates on Customer Deposits.

8  
9 **II. Background of Application**

10 **Q. Please summarize the Application.**

11 A. On December 21, 2015, Chesapeake filed an Application for a general increase in its  
12 natural gas rates. The new rates are designed to produce an annual increase of  
13 approximately \$4,741,823 or 9.96% above total operating revenues. The test year in the  
14 Application is the twelve months ended June 30, 2015 and the test period is the twelve  
15 months ended March 31, 2016. The Company is seeking an overall rate of return of  
16 8.55% and a return on equity of 11%. The Application requested that the full proposed  
17 increase become effective February 19, 2016. In the event the Commission decided to  
18 suspend the full proposed increase, the Company requested to put into effect an interim  
19 increase of \$2.5 million on February 19, 2016.

1 Lastly, the Company is also requesting approval to implement a number of new service  
2 offerings, a RNA for residential and smaller commercial customers, deferred accounting  
3 treatment for certain expenses, and miscellaneous changes to its natural gas tariff.

4 **Q. Did the Commission approve the Company's request to put into effect an interim**  
5 **rate increase?**

6 A. Yes, in fact the Commission has approved two requests from the Company to implement  
7 interim rates. First, on January 19, 2016, the Commission adopted Order No. 8848  
8 suspending the full rate increase and permitting the Company to implement interim rates  
9 intended to produce an annual increase of \$2.5 million in intrastate operating revenues,  
10 effective February 19, 2016, with proration and subject to refund. Second, on July 26,  
11 2016, the Commission adopted Order No. 8921 allowing Chesapeake to implement  
12 revised interim rates intended to produce an additional \$2,241,823 into effect for usage  
13 on and after August 1, 2016, with proration and subject to refund. Chesapeake has the  
14 statutory right, after the expiration of seven (7) months from the date of the application to  
15 place into effect an interim rate increase so long as said rates will not produce an increase  
16 in excess of 15% of the Company's annual gross intrastate operating revenue.<sup>1</sup>

17 Table 1 below illustrates each of the interim rate increases by service classification.  
18  
19  
20

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<sup>1</sup> See 26 Del. C. §306(b).

<b>Table 1: Interim Rate Increase by Service Classification</b>				
Service Classification	Full Proposed Interim Increase (Effective 8/1/2016)		Interim Increase (Effective 2/19/2016)	
	Dollar Amount	Percentage	Dollar Amount	Percentage
RS-1	\$ 359,321	30.68	\$ 92,502	7.90
ERS-1	\$ 5,007	11.25	\$ 1,057	2.38
RS-2	\$ 3,791,018	12.33	\$ 1,544,161	5.02
ERS-2	\$ 23,402	4.96	\$ 9,736	2.06
GS	\$ 437,942	13.32	\$ 162,218	4.93
EGS	\$ 551	2.70	\$ 362	1.77
MVS	\$ 123,340	4.38	\$ 88,980	3.16
EMVS	\$ 408	3.86	\$ 302	2.86
LVS	\$ (2,200)	-0.06	\$ 98,123	5.34
HLFS	\$ (4,274)	-0.11	\$ 399,507	10.05
GLR	\$ 298	33.67	\$ 0	N/A
NCR	\$ 7,001	4.67	\$ 1,104	0.74
ITS	\$ 0	N/A	\$ 0	N/A
NGV	\$ 0	N/A	\$ 0	N/A
Total	\$ 4,741,823	9.96%	\$2,498,052	5.25%

**Q. What is the impact of the full proposed interim increase to Chesapeake's residential customers?**

A. When compared to the current rates, the average residential heating customer using 120 Ccf during a winter month would experience an increase of \$13.36 or 10.68%, in their total monthly bill.

**Q. Please explain your review of the Application.**

A. I performed a review of the application and all schedules provided by the Company for accuracy and completeness. In addition, I have thoroughly reviewed all testimonies and information obtained through formal discovery. I have also examined prior Chesapeake base rate dockets, Commission Orders, and Chesapeake's quarterly and annual financial

1 data filed with the Commission. Lastly, I have attended all meetings with various  
2 Company personnel involved with this case including participation in a visit to  
3 Chesapeake offices and field locations with other members of Staff.

4 **Q. Can you briefly describe the meetings and field locations you just mentioned?**

5 A. The procedural schedule approved by the Senior Hearing Examiner in this docket lists  
6 August 2 – 4, 2016 as the “Staff/DPA [Division of the Public Advocate] Audit.” Staff  
7 contacted the Company on July 15, 2016 to request a field tour of Chesapeake’s facilities  
8 and meetings with appropriate personnel to provide an overview of the corporate and  
9 accounting structure as well as updates on the Company’s progress relating to its  
10 Customer Information System. The Company accommodated the requests of Staff and  
11 met with Staff and DPA on the morning of August 2, 2016 to tour Chesapeake’s Queen  
12 Street facility and Chesapeake’s Peak Shaving Plant located just north of Dover,  
13 Delaware. Later in the afternoon of the same day, representatives from the corporate  
14 accounting department of Chesapeake met with the Staff and the DPA to provide an  
15 overview of the corporate and accounting structure, as well as to review the cost  
16 allocation process to each of Chesapeake’s divisions. On the afternoon of August 4,  
17 2016, Staff met with representatives from the customer care group and the business and  
18 information services group to discuss Chesapeake’s Customer Information System and  
19 discuss other related business technology projects that the Company is undertaking or  
20 plans to undertake in the future.



1           **III.    Staff's Recommendations**

2   **Q.    What is Staff's recommended revenue requirement for this proceeding?**

3   A.   Staff Witness Morgan is recommending a revenue increase of \$1,017,019 in this  
4       proceeding, as shown on his Schedule LKM-1. The primary differences in the Company  
5       and Staff's positions can be attributed to Staff's recommended return on equity which  
6       reduces the Company's overall rate of return. Adjustments to the Company's rate base,  
7       labor costs, executive incentive compensation, rate case and other expenses were also  
8       contributing factors to the overall difference in the Company and Staff's recommended  
9       revenue requirements in this proceeding.

10 **Q.   What capital structure, return on equity and overall rate of return is Staff**  
11 **proposing?**

12 A.   Staff Witness Parcell is proposing an overall rate of return of 7.06% (the mid-point of his  
13       recommended range of 6.71% to 7.41%), based on a return on equity of 9.30% (the mid-  
14       point of his recommended range of 8.6% to 10%). This recommendation is also based on  
15       a hypothetical capital structure of 50% common equity and 50% debt and utilizes  
16       Chesapeake's cost of debt of 4.82%. Staff Witness Parcell's recommendations are  
17       further addressed in his direct testimony.

18 **Q.   What pro forma levels of rate base and net operating income is Staff**  
19 **recommending?**

1 A. As found on Staff Witness Morgan's Schedule LKM-1, page 1, Staff's pro forma rate  
2 base is \$68,322,378. Staff Witness Morgan's pro forma net operating income of  
3 \$4,223,457 is also shown on Schedule LKM-1, page 1.

4 **Q. What is Staff's recommendation regarding the Company sponsored Allocated Cost**  
5 **of Service Study ("ACOSS")?**

6 A. As discussed in Staff Witness Mierzwa's testimony, Staff believes that Chesapeake's  
7 ACOSS, which utilizes Customer/Demand methodology, does not accurately allocate  
8 cost responsibilities among its customer classes. Staff recommends the use of the Peak &  
9 Average Method as it more appropriately allocates costs to each customer class while  
10 keeping in closer alignment with cost of service principles.

11 **Q. A number of tariff changes have been proposed by Chesapeake in this proceeding.**  
12 **Can you please provide a brief summary and recommendation of these changes?**

13 A. Yes. The Company proposed a number of new service offerings, changes to its  
14 curtailment policy, an extension in the bill payment due date, and a change to the way  
15 interest is determined on customer deposits in its tariff. Generally, Staff does not oppose  
16 any of Chesapeake's proposed new service offerings as they are intended to increase the  
17 Company's ability to provide natural gas service to customers who may not have had the  
18 option previously. These proposed new service offerings are discussed in more detail in  
19 Staff Witness Mierzwa's testimony. Staff also does not oppose Chesapeake's proposed  
20 changes to its curtailment policy, bill payment due date terms, and methodology for  
21 determining interest on customer deposits. These issues are addressed in Staff Witness  
22 Driggins' testimony.

1    **Q.     Do you have any additional matters to address?**

2    A.     No.

3    **Q.     Does this conclude your testimony in this proceeding?**

4    A.     Yes.